

DAILY BULLETIN

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BILL TO COMPLY WITH WTO RULINGS ON TAX BREAKS ADVANCES IN SENATE

Bush administration expresses opposition to some provisions..... 1

ARMITAGE DETAILS STATE'S REQUESTS IN SUPPLEMENTAL FUNDING BILL

Security, Democratization, Infrastructure in Iran, Afghanistan main targets 2

IRAQI SCHOOLS REOPEN THEIR DOORS

Students find refurbished classrooms, textbooks 3

U.S., U.K. FIRMS, VOLUNTEERS COLLABORATE ON SMALLPOX CURE

Sept. 30: results presented at U.K. Embassy in Washington, D.C. 4

BILL TO COMPLY WITH WTO RULINGS ON TAX BREAKS ADVANCES IN SENATE

Bush administration expresses opposition to some provisions

By Bruce Odessey
Washington File Staff Writer

Washington -- The Senate Finance Committee has voted to advance legislation aimed at replacing a U.S. law that gives tax breaks to certain U.S. manufactured exports, a law successfully challenged in the World Trade Organization (WTO).

The committee voted 19-2 October 1 for the bill, called the Jumpstart Our Business Strength (JOBS) Act, but some members said they would try to amend parts of it when it comes before the full Senate.

The Bush administration, which submitted no legislative proposal itself, has expressed opposition to certain parts of the bill.

For decades the United States provided tax breaks for certain manufactured exports under Foreign Sales Corporation (FSC) law. Under a challenge brought by the European Union (EU), the WTO ruled in 2000 that the FSC constituted an export subsidy prohibited by WTO agreement. A successor law, the Extraterritorial Income Exclusion Act (ETI), was likewise ruled illegal by the WTO in 2002.

Since then the WTO has authorized the EU to impose retaliatory sanctions on \$4 billion [\$4,000 million] worth of U.S. imports a year, sanctions the EU threatens to impose starting January 1 if the United States fails to comply with the WTO ruling.

“Our bill replaces a tax incentive that was dependent on exports with a tax incentive that is not dependent on exports,” Senator Max Baucus of Montana, senior committee Democrat, said in a written statement. “This bill will solve the WTO problem.”

Although details take up hundreds of pages, the bill’s central provision would over time reduce the tax rate for U.S. manufacturers, farmers, miners and foresters -- not only corporations, but also partnerships and sole proprietorships -- to 32 percent from 35 percent while repealing the ETI law.

Pamela Olson, assistant Treasury secretary, told the senators that the administration opposed the way that the bill would tax manufacturing industries at a lower rate than service industries, which would still be subject to a 35-percent rate. She said the tax-collecting Internal Revenue Service would face complicated enforcement problems.

Senator Chuck Grassley, Republican committee chairman, argued that because the FSC/ETI regime aimed at supporting manufactured exports, any replacement legislation should also target manufacturing, not all U.S. industry.

In the face of committee opposition, Republican Senator Don Nickles withdrew an amendment that would have brought the tax rate down to 33 percent for manufacturing and services industries alike, but only for corporations, not for partnerships and sole proprietorships. He said he would still attempt to get approval for the amendment when the full Senate considers the bill.

One especially controversial provision of the bill, called the Homeland Reinvestment Act, would lower the tax rate for one year to 5.25 percent on past income from a foreign tax haven of a U.S. parent corporation. The U.S. parent would have to dedicate the tax break for U.S. reinvestment, including worker hiring and training and research and development. It would apply only retroactively, not prospectively.

The Republican sponsors of the provision argue that the one-time tax break for repatriation of this foreign income would generate perhaps half a million new U.S. jobs.

Treasury’s Olson sided with Finance Committee Democrats, however, in opposition to the provision. She said it would treat unfairly those companies lacking foreign tax havens that have been steadily repatriating their income over years at the higher ordinary rate.

Meanwhile, companion legislation in the U.S. House of Representatives has been stuck in a stalemate. A bipartisan group of House members have introduced a bill similar to the Senate Finance bill.

But Representative Bill Thomas, Republican chairman of the House Ways and Means Committee, has proposed a far different bill; it would relax tax rules for U.S.-owned multinational corporations and relax rules for writing off the costs of capital equipment.

Thomas’ bill would reduce revenue by about \$128 billion [\$128,000 million] over 10 years, while the rival House bill would cost only about \$126 million, according to Congress’ Joint Committee on Taxation. The Senate Finance Committee bill would compensate for all lost revenue.

Treasury Secretary John Snow issued a statement applauding the Finance Committee’s action.

“The Administration’s top priority is getting a bill enacted that complies with the WTO ruling and avoids triggering \$4 billion in EU trade sanctions,” Snow said.

“The EU has stated the Congress needs to pass bills out of both houses by the end of the year to avoid such sanctions. We encourage Congress to replace ETI in a way that improves the competitiveness of America’s manufacturers and other job creators,” he said. “It is critically important that we continue to work together to get legislation enacted.”

ARMITAGE DETAILS STATE’S REQUESTS IN SUPPLEMENTAL FUNDING BILL

Security, Democratization, Infrastructure in Iran, Afghanistan main targets

In a September 30 appearance before the House Appropriations Subcommittee on Foreign Operations, Deputy Secretary of State Richard Armitage detailed the projects for which the State Department is requesting funding as

part of President Bush's \$87 billion supplemental package.

Security concerns top the agenda in the State Department's \$1.14 billion funding request. "In Afghanistan, security remains an urgent challenge in many parts of the country," Armitage said, citing the need to deal with remnants of the Taliban and al-Qaeda as well as drug trafficking interests and general criminal activity. "For Afghanistan to become a truly independent state," he said, "these security needs must be met by Afghans."

Consequently, the funding request includes \$420 million to bolster efforts at training national Afghan Police and Armed Forces while demobilizing local militias.

Governance and democratization projects in Afghanistan will receive \$104 million as the country prepares for its first national elections. The funds are earmarked for judicial infrastructure, voter registration projects and support for the Afghan civil service.

Another \$268 million is aimed at physical and economic infrastructure programs including road construction, industrial parks, schools and health clinics.

Security also weighs heavily in the department's funding request for Iraq, where \$140 million will be dedicated to assisting peacekeeping forces as well as securitizing diplomatic facilities and border crossings.

Armitage underscored the importance of the supplemental package, stating that "the U.S. government has the opportunity to help not only our own people, but also the people of Iraq and Afghanistan, the region, and around the world."

IRAQI SCHOOLS REOPEN THEIR DOORS

Students find refurbished classrooms and new textbooks

By David Shelby
Washington File Staff Writer

Washington -- Some 5.5 million Iraqi primary and secondary age students returned to school October 1 for registration and orientation in preparation for the new academic year. The opening of school follows months of

cleaning and refurbishing school facilities.

The Coalition Provisional Authority set a goal of renovating 1,000 schools before the beginning of classes, but U.S. Agency for International Development (USAID) Administrator Andrew Natsios reported September 30 that the agency surpassed this target, completing renovations in 1,500 of the country's schools.

Renovation efforts continue in many more of the nation's 3,900 secondary schools. USAID has approved 89 grants worth more than \$1.2 million to clean and equip schools and education offices throughout Iraq. To date, these projects have provided work for some 35,000 Iraqis through 64 local subcontractors.

In addition to clean classrooms and new desks, Iraqi students will find new textbooks thanks to a UNESCO project, supported in part by USAID, to revise 98 math and science texts and print 5.6 million new copies for distribution throughout the country. USAID is also distributing 1.5 million new student supply kits.

In coordination with the Iraqi Ministry of Education, USAID is working to create a standardized national examination process in order to evaluate the schools and the students' progress. Five locations have also been selected to serve as accelerated learning centers. In addition, USAID will be funding a \$20 million program to establish partnerships between Iraqi and American universities.

The ministerial level is not the only place where change is occurring, however. For the first time, Iraqi parents and teachers are participating in educational decisions through local Parent Teacher Associations (PTAs). In order to ensure that community members have a say in matters affecting their children's futures, a certain portion of funds earmarked for education is being allocated according to the requests of the newly formed PTAs.

Classes are scheduled to begin on Saturday, October 4

U.S., U.K. FIRMS, VOLUNTEERS COLLABORATE ON SMALLPOX CURE

Sept. 30: results presented at U.K. Embassy in Washington, D.C.

At an event marking the completion of an "important first stage in finding a treatment for smallpox," several U.S. and U.K. companies have presented the results of the Smallpox Research Grid project, the U.S. Department of Defense announced September 30.

The project is an international effort to develop new anti-viral drugs to counter the smallpox virus, which it is feared could be used as a weapon of bioterrorism.

International volunteers participated by donating 39,000 years of computing time, enabling a project that would have taken years using traditional methods to be completed in less than four weeks.

Following is the Department of Defense press release:

U.S. Department of Defense Washington, D.C.
September 30, 2003

SMALLPOX RESEARCH PROJECT DATA PRESENTED

At a presentation today at the Embassy of the United Kingdom in Washington, D.C., United Devices, IBM and Accelrys, along with several technology and research partners, delivered the results of the Smallpox Research Grid project to representatives from the U.S. Department of Defense. The event marked the completion of an important first stage in finding a treatment for smallpox.

The use of smallpox as a weapon of bio-terrorism remains a frightening possibility. Vaccination ended in 1972 and today the only groups vaccinated are military personnel and a small number of civilian healthcare workers. Some experts believe that the general population could be susceptible. Availability of new anti-viral drugs to counter the virus would be a major advance in our defense.

Oxford Chemistry Department Head Graham Richards presented the results of the collaborative effort to First Secretary, Science & Technology, U.K. Embassy, Chris Pook, and Deputy Assistant to the Secretary of Defense

for Counterproliferation and Chemical and Biological Defense, U.S. Department of Defense, Brig. Gen. Pat Nilo.

In February 2003, the groups donating the research asked computer users around the world to join with them in the Smallpox Research Project, an international effort designed to help scientists develop new anti-viral drugs to counter the smallpox virus. The project screened thirty-five million potential drug molecules against eight models of the smallpox protein to determine if any of the drug-like molecules would bind to the smallpox protein, rendering it inactivated.

Volunteers from more than 190 countries donated their spare CPU power at <http://www.grid.org>, the world's largest public computing resource, and contributed more than 39,000 years of computing time in less than six months. Preliminary results have dramatically narrowed the field of molecules that can be considered lead candidates for the next phase of research.

The Smallpox Research Project is based on the Intel-United Devices Cancer Research Project and the Anthrax Research Project that harnessed the computing power of 1.3 million PCs around the world to provide scientists access to a virtual supercomputer more powerful than the world's ten largest supercomputers combined.

The ultimate goal of the project is to use commercially available technologies employed by pharmaceutical and biotechnology companies to screen millions of potential anti-smallpox drugs against the identified protein targets. Had this project been undertaken using traditional methods, it would have taken years instead of less than four weeks.

The results of this research, which consist of a ranked list of drug candidates, will be turned over to the U.S. Government (U.S. Army Medical Research Institute of Infectious Diseases) and other friendly governments for further research and drug development.

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